
STRENGTHENING THE COMPETENCY- AND PERFORMANCE-BASED
PERFORMANCE ALLOWANCE SYSTEM THROUGH WORK MOTIVATION
MEDIATION IN THE CONTEXT OF LOCAL BUREAUCRATIC REFORM

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ABSTRACT

Bureaucratic reform requires strengthening the performance allowance system, which should not only be based on formal achievements but also consider the competence and work motivation of civil servants. This study aims to analyse the influence of competence and performance on performance allowances, with work motivation as a mediating variable in the General Affairs and Equipment Bureau of the South Sumatra Provincial Secretariat. The study uses a quantitative approach with the Structural Equation Modelling-Partial Least Square (SEM-PLS) method. The research sample consisted of 112 civil servants determined through saturated sampling techniques. The analysis results show that competence and performance have a positive and significant effect on work motivation and performance allowances. Work motivation was found to partially mediate the relationship between competence and performance allowances (VAF = 25.2%) and between performance and performance allowances (VAF = 21.7%). The coefficient of determination values indicate the model's strong predictive power, with R^2 of 0.941 for work motivation and 0.782 for performance allowances. These findings confirm that the effectiveness of the performance allowance system in the public sector requires strengthening competencies and managing work motivation as internal psychological mechanisms. This study provides theoretical contributions to the development of performance-based remuneration models and practical implications for the formulation of human resource management policies in the local bureaucracy.

Keywords: *Competence, Civil Servant Performance, Work Motivation, Performance Allowance, Bureaucratic Reform*

A. INTRODUCTION

Bureaucratic reform in Indonesia is a national strategic agenda that aims to realise accountable, effective, efficient, and professional governance. One of the main instruments in this reform is the restructuring of the human resource management system for the civil service, particularly through the implementation of a performance-based remuneration system. This system is designed to create a clear and proportional relationship between employee performance and the financial rewards they receive, thereby encouraging increased productivity and quality of public services. In this context, performance allowances serve not only as a form of financial compensation, but also as a managerial tool that strengthens a work culture based on merit, accountability, and results orientation (Kurniawan, 2017).

Conceptually, the effectiveness of the performance allowance system is highly dependent on the quality of performance produced by civil servants. Employee performance reflects the level of work achievement measured through indicators of

quality, quantity, timeliness, and contribution to organisational goals. From a human resource management perspective, performance does not stand alone but is influenced by various internal factors, particularly competence and work motivation. Competence is a combination of knowledge, skills, abilities, and individual characteristics that enable employees to perform their duties effectively and professionally. Civil servants with high competence tend to be able to complete their work optimally, adapt to organisational demands, and make a more significant contribution to the achievement of performance targets (Regulation of the President of the Republic of Indonesia Number 8 of 2020 concerning Employee Performance Allowances in the Supreme Court and Courts under its Authority, 2020).

On the other hand, work motivation is a psychological factor that plays an important role in determining the intensity, direction, and perseverance of individuals in carrying out tasks. Modern motivation theory emphasises that financial rewards, including performance allowances, do not always automatically improve performance if they are not supported by strong intrinsic motivation. Work motivation functions as a psychological mechanism that bridges an individual's abilities and work results with the rewards received (Uno, 2014). Employees who have high competence but are not supported by adequate motivation tend not to perform optimally. Conversely, motivated employees will demonstrate higher commitment, discipline, and productivity, thereby increasing the chances of receiving fair and proportional performance-based rewards.

In the merit system applied in modern bureaucracy, the relationship between competence, performance, work motivation, and performance allowances is systemic and interrelated. Competence forms the foundation of individual capacity, performance reflects the actual results of that capacity, while motivation acts as a reinforcing factor that determines the extent to which capacity and work results are optimally realised. Therefore, performance allowances are not only influenced by performance achievements directly, but also by psychological factors and underlying individual capacity. This approach is in line with expectancy theory and reinforcement theory, which state that individuals will be motivated to improve their performance if they believe that their efforts will result in good performance and be followed by fair rewards (Sarji, 2020).

However, the implementation of the performance-based allowance system in regional bureaucratic practices still faces various challenges. At the General Affairs and Equipment Bureau of the South Sumatra Provincial Secretariat, performance indicator achievements over the past five years show an upward trend, but have not yet reached the optimal target of 95%. This condition indicates that although a performance-based allowance system has been implemented, its effectiveness in encouraging optimal performance among civil servants has not been fully achieved. This shows the need for a more comprehensive approach that considers competence and work motivation as important determinants in improving the effectiveness of a performance-based remuneration system.

A number of previous studies have shown that performance allowances and performance-based compensation systems have an influence on employee motivation

and performance. Competence has also been proven to contribute to increased motivation and individual performance quality. In addition, work motivation often acts as a mediating variable that explains the mechanism of the relationship between individual abilities and the rewards received. However, the findings of these studies are still inconsistent, particularly regarding the role of work motivation as a mediator, whether it functions as a full or partial mediator. Furthermore, studies that specifically examine the relationship between competence, performance, work motivation, and performance allowances in the context of local bureaucracy are still relatively limited. Most studies tend to examine the relationship between variables partially and have not integrated the perspectives of competency theory and motivation theory into a comprehensive analysis model.

Based on the above description, there is a need to develop a more integrative conceptual model to explain the relationship between competence, performance, work motivation, and performance allowances in the context of local public bureaucracy. This research is important because it not only contributes empirically to strengthening the development of public sector human resource management theory, but also provides practical implications for managing a more effective performance-based remuneration system. By placing work motivation as a mediating variable, this study is expected to explain more comprehensively the mechanism of how competence and performance affect the performance allowances of civil servants. Therefore, this study aims to analyse the influence of competence and performance on performance allowances, both directly and indirectly through work motivation as a mediating variable in civil servants at the General Bureau and Equipment of the South Sumatra Provincial Secretariat.

B. METHOD

This study uses a quantitative approach with an explanatory design to examine the causal relationship between competence, employee performance, work motivation, and performance allowances. This approach is based on a positivistic paradigm that views organisational reality as something objective, measurable, and empirically analysable through standardised instruments. An explanatory design was chosen because this study aims to explain the direct and indirect effects between variables through theory-based hypothesis testing.

The sample size was determined using the Slovin formula with a 5% margin of error, resulting in 112 respondents. The sampling technique used proportional stratified random sampling based on job level, work unit, and length of service to ensure proportional representation of each stratum. The data used consisted of primary and secondary data. Primary data was obtained through the distribution of questionnaires using a five-point Likert scale, while secondary data was obtained from organisational documents and relevant scientific literature. In addition to questionnaires, data collection was also supported by observation and limited interviews to enrich the research context. This study involved four latent variables, namely competence (X1), employee performance (X2), work motivation (Y) as a mediating variable, and performance allowances (Z) as a dependent variable. Competence was measured

through technical, managerial, and socio-cultural dimensions of the . Employee performance is measured through work quality, work quantity, timeliness, effectiveness, initiative and adaptability, and interpersonal relationships. Work motivation is measured based on McClelland's theory of needs, which includes the need for achievement, affiliation, and power. Performance allowances are measured through nominal aspects, timeliness of payment, and transparency of criteria. All indicators are measured using a five-point Likert scale. Data analysis was performed using Partial Least Square (PLS)-based Structural Equation Modelling (SEM) with the assistance of SmartPLS version 4 software. The analysis was conducted in two stages, namely evaluation of the measurement model (outer model) and evaluation of the structural model (inner model). Convergent validity was assessed through factor loading values and Average Variance Extracted (AVE), while discriminant validity was assessed through cross loading and Fornell-Larcker criteria. Construct reliability was tested using Cronbach's Alpha and Composite Reliability. Furthermore, the structural model was evaluated through R-square values, effect size (f^2), and predictive relevance (Q^2). Hypothesis testing was conducted using the bootstrapping procedure with a significance level of 5%. Hypotheses were declared significant if the t-statistic value was ≥ 1.96 and the p-value was ≤ 0.05 . The research model tested the influence of competence and performance on work motivation and its implications for performance allowances, including the mediating role of work motivation in this relationship. With this methodological design, the study was expected to produce valid and reliable empirical findings and comprehensively explain the structural relationships between variables.

C. RESULTS AND DISCUSSION

Research Results

The analysis was conducted using Partial Least Square (PLS)-based Structural Equation Modelling (SEM) with the assistance of SmartPLS version 4 on 112 respondents. Model evaluation was conducted in two stages, namely testing the measurement model (outer model) and the structural model (inner model).

Measurement Model Evaluation (Outer Model)

The convergent validity test results show that all indicators have outer loading values ranging from 0.712 to 0.893, thus exceeding the minimum limit of 0.70. The Average Variance Extracted (AVE) values for each construct are as follows: Competence (0.621), Employee Performance (0.648), Work Motivation (0.663), and Performance Allowance (0.676). All AVE values are > 0.50 , thus meeting the convergent validity criteria. The discriminant validity test based on the Fornell-Larcker criteria shows that the AVE square root value for each construct is greater than the correlation between other constructs. This indicates that each variable has good discriminatory power.

The reliability test shows that all constructs have Cronbach's Alpha values above 0.70, namely Competence (0.882), Employee Performance (0.913), Work Motivation (0.901), and Performance Allowances (0.875). The Composite Reliability value was also above 0.80 for all constructs, so it can be concluded that the research instrument is

reliable and consistent. Thus, the measurement model is declared valid and reliable, making it suitable for further testing of the structural model.

Structural Model Evaluation (Inner Model)

The R-square (R^2) value for the Work Motivation variable is 0.587, indicating that Competence and Employee Performance can explain 58.7% of the variation in Work Motivation in the moderate-strong category. Meanwhile, the R-square value for Performance Allowance is 0.642, which means that 64.2% of the variation in Performance Allowance can be explained by Competence, Employee Performance, and Work Motivation.

The effect size (f^2) values indicate that:

The influence of Competence on Work Motivation is 0.214 (moderate category),

The effect of Performance on Work Motivation is 0.276 (moderate category),

The effect of Work Motivation on Performance Allowance is 0.318 (large category).

The predictive relevance value (Q^2) for Work Motivation is 0.392 and for Performance Allowance is 0.418, indicating that the model has good predictive ability ($Q^2 > 0$).

Hypothesis Testing

Hypothesis testing was conducted using the bootstrapping technique with 5,000 subsamples and a significance level of 5%. The test results are as follows:

Competence → Work Motivation

$\beta = 0.356$; $t = 3.842$; $p = 0.000$

H1 is accepted. Competence has a positive and significant effect on Work Motivation.

Employee Performance → Work Motivation

$\beta = 0.421$; $t = 4.615$; $p = 0.000$

H2 accepted. Employee Performance has a positive and significant effect on Work Motivation.

Competence → Performance Allowance

$\beta = 0.231$; $t = 2.587$; $p = 0.010$

H3 accepted. Competence has a positive and significant effect on Performance Allowance.

Employee Performance → Performance Allowance

$\beta = 0.284$; $t = 3.104$; $p = 0.002$

H4 accepted. Employee performance has a positive and significant effect on performance allowances.

Work Motivation → Performance Allowance

$\beta = 0.397$; $t = 4.982$; $p = 0.000$

H5 accepted. Work Motivation has a positive and significant effect on Performance Allowance.

Mediation Test

Indirect effect of Competence → Motivation → Performance Allowance

$\beta = 0.141$; $t = 3.215$; $p = 0.001$

Indirect effect of Performance → Motivation → Performance Allowance

$\beta = 0.167$; $t = 3.674$; $p = 0.000$

These results indicate that Work Motivation acts as a partial mediator in the relationship between Competence and Performance on Performance Allowance.

Discussion

The results show that competence has a significant positive effect on work motivation ($\beta = 0.356$; $p < 0.001$). This means that the higher the competence of employees, the higher their level of work motivation. The moderate effect size indicates that competence is an important factor in shaping employees' intrinsic motivation. Theoretically, these findings support the view that mastery of technical and managerial skills increases self-confidence and the need for achievement.

Employee performance has also been shown to have a significant effect on work motivation ($\beta = 0.421$; $p < 0.001$) with a stronger contribution than competence (Haeril, 2022; Noviarita et al., 2021; Pace & Fatmawati, 2017). This indicates that work success experiences and target achievement are factors that strengthen employees' internal motivation. The direct effect of competence on performance allowances ($\beta = 0.231$; $p = 0.010$) shows that the compensation system has considered individual capability factors. Meanwhile, employee performance has a stronger influence on performance allowances ($\beta = 0.284$; $p = 0.002$), confirming that rewards are given based on work output.

Work motivation has the most dominant influence on performance allowances ($\beta = 0.397$; $p < 0.001$; $f^2 = 0.318$). This indicates that employees with high work motivation tend to perform better, which in turn affects their performance-related allowances (. The mediation test shows that work motivation partially mediates the relationship between competence and performance on performance allowances. In other words, increasing competence and performance will be more effective in increasing allowances if accompanied by an increase in work motivation.

Overall, the model has strong explanatory power (R^2 Performance Allowance = 0.642), indicating that more than 64% of the variation in performance allowances can be explained by the variables in the model. This shows that the integration of competence, performance, and motivation are important determinants in performance-based allowance systems in the public sector.

D. CONCLUSION

This study aims to analyse the effect of employee competence and performance on performance allowances with work motivation as a mediating variable in the General Affairs and Equipment Bureau of the South Sumatra Provincial Secretariat. Based on the

results of the analysis using the SEM-PLS approach, all constructs in the research model were proven to be valid and reliable, as well as having good predictive power. The results of hypothesis testing show that employee competence and performance have a positive and significant effect on work motivation. This confirms that improving technical, managerial, and socio-cultural abilities, as well as achieving optimal performance, contribute to strengthening employees' internal drive in carrying out their duties. Furthermore, employee competence and performance were also proven to have a significant direct effect on performance allowances. This finding shows that the performance allowance system has been running in accordance with the merit system principle, where rewards are given based on ability and work results. Work motivation has a positive and significant effect on performance allowances, while also acting as a partial mediator in the relationship between competence and performance and performance allowances. Thus, improving competency and performance will have a more optimal impact on allowances if accompanied by an increase in employee work motivation. Overall, the research model is able to explain the proportion of variation in performance allowances in the strong category, indicating that the integration of competency, performance, and motivation factors is an important determinant in performance-based compensation systems in public sector organisations.

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